

Message Text

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14

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HONG KONG FOR TREASURY REP SHARPE

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SUBJECT: CAPITAL MARKET IN INDONESIA

1. SUMMARY: PROF. DAVID KLEINMAN OF FORDHAM UNIVERSITY, WHO CLAIMS TO HAVE PLAYED KEY ROLE IN EVOLUTION OF BRAZILIAN CAPITAL AND STOCK MARKETS, RECENTLY VISITED JAKARTA. HE MET WITH KEY GOI FINANCIAL OFFICIALS. IT IS POSSIBLE HIS PRESENCE COULD BE STIMULANT NEEDED TO CREATE MARKETS THAT GOI HAS BEEN SEEKING FOR SEVERAL YEARS.
END SUMMARY.

2. AS DEPARTMENT IS AWARE GOI HAS BEEN SEEKING WAYS TO IMPLEMENT ITS DESIRE TO ESTABLISH BOTH CAPITAL AND STOCK MARKETS. SINCE 1970 THERE HAVE BEEN NUMEROUS ADVISORS, CONSULTANTS, RESEARCHERS, ETC., WHO HAVE PREPARED REPORTS, RECOMMENDATIONS AND DRAFT LEGISLATION. AS PART OF THIS DEVELOPMENT THERE WERE AUTHORIZED A NUMBER OF "NON-BANK FINANCIAL INSTITUTIONS" WHOSE SPECIFIC PURPOSE WAS TO OPERATE WITHIN A CAPITAL MARKET. THERE ARE SEVEN SUCH

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INSTITUTIONS INVOLVING AMERICAN BANKS AND FINANCIAL

GROUPS AS FOLLOWS: ASIAN & EURO-AMERICAN CAPITAL CORP. LTD. (P.T. ASEAM), FINANCIAL CORPORATION OF INDONESIA (P.T. FINCONESIA), INDONESIAN INVESTMENTS INTERNATIONAL (P.T. INDOVEST), P.T. INTER-PACIFIC FINANCIAL CORPORATION, MERCHANT INVESTMENT CORPORATION (P.T. MERINCORP), MULTI-NATIONAL FINANCE CORPORATION (P.T. MULTICOR), AND P.T. MUTUAL INTERNATIONAL FINANCE CORPORATION. IMPLEMENTATION OF ALL OF VARIOUS RECOMMENDATIONS AND PROPOSALS HAS BEEN DELAYED INORDINATELY BECAUSE OF DILEMMA FACED BY GOI IN ITS DESIRE TO AVOID SKEWING OF BENEFITS OF SUCH A CAPITAL AND STOCK MARKET TOWARDS NON-INDIGENOUS INDONESIANS AND FOREIGN GROUPS. GOI ALSO FEARFUL THAT ASTUTE FINANCIAL INSTINCTS OF NON-INDIGENOUS INDONESIANS WOULD SEE THEM "CREAMING" THE MARKET IN ITS INITIAL STAGES.

3. ON AUGUST 14 E/CM COUNSELOR MET WITH PROFESSOR DAVID KLEINMAN WHO IS A CONSULTING INTERNATIONAL ECONOMIST AND PROFESSOR OF FINANCE AT FORDHAM UNIVERSITY IN NEW YORK. KLEINMAN VISITED INDONESIA ON A PERSONAL BASIS ON HIS RETURN TO U.S. FOLLOWING A 3-MONTH CONSULTANCY CONTRACT WITH GOVERNMENT OF AUSTRALIA. HE HAD WRITTEN TO KEY SENIOR GOI OFFICIALS WHOSE NAMES HE HAD BEEN GIVEN BY INDONESIAN CONSUL GENERAL IN NEW YORK. HIS PURPOSE IN VISITING WITH EMBASSY WAS TO REVIEW CURRENT FINANCIAL/ECONOMIC SCENE, AND GAIN SOME INSIGHTS, FACTS AND ADVISE WITH REGARD TO SEEING GOI OFFICIALS. IT WAS IMMEDIATELY EXPLAINED TO HIM THAT HE WAS ATTEMPTING TO MAKE APPOINTMENTS IN THE PERIOD AROUND INDEPENDENCE DAY, AND THAT IT WAS UNLIKELY THAT HE WOULD BE ABLE TO SEE ANYONE BEFORE THE 18TH.

4. KLEINMAN SAID THAT HE WAS ONE OF THE AUTHORS OF PLAN WHICH RESULTED IN SUCCESSFUL ESTABLISHMENT OF BRAZILIAN CAPITAL MARKET AND STOCK MARKET. HE SAID HE RECOGNIZED AN ANALOGOUS SITUATION EXISTING IN INDONESIA, PARTICULARLY WITH REGARD TO PRESENCE OF ABOVE-NOTED MERCHANT BANK ORGANIZATIONS. EMBASSY PUT HIM IN TOUCH WITH CITIBANK JAKARTA BRANCH VICE PRESIDENT JAMES COLLINS WHO ASSISTED IN SUBSEQUENT SUCCESSFUL VISIT FOR KLEINMAN.

5. KLEINMAN ADVISED E/CM COUNSELOR ON AUGUST 21 THAT HE LIMITED OFFICIAL USE

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HAD NOT ONLY HAD EXTENSIVE DISCUSSIONS WITH GOVERNOR OF BANK INDONESIA AND MINISTER OF FINANCE BUT ALSO TWICE MET WITH GOI INTER-AGENCY COMMITTEE ON CAPITAL MARKET AND HAD LECTURED AT CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES. HE SAID THAT SENIOR FINANCIAL OFFICIALS OF GOI WERE FAMILIAR WITH HIS WORK IN BRAZIL. HE ALSO REPORTED THAT BANK INDONESIA ASKED IF HE COULD RETURN TO INDONESIA AS CONSULTANT WITHIN NEXT SIX MONTHS TO ATTEMPT TO WORK

OUT IMPLEMENTATION OF SOME OF HIS IDEAS IN LINE WITH
OTHER PROPOSALS UNDER CONSIDERATION BY GOI.

6. COMMENT: SUGGEST THAT IF DEPARTMENT IS APPROACHED
BY KLEINMAN AND THAT IF INFORMATION HE HAS GIVEN US
REGARDING HIS EXPERIENCE IN BRAZIL IS VALID, THAT DEPART-
MENT BE PREPARED TO SUPPORT HIM IN ANY ENDEAVORS TO ASSIST
GOI IN WHAT EMBASSY JUDGES TO BE SIGNIFICANT GAP IN
DEVELOPMENT OF INDONESIA'S COMMERCIAL FINANCIAL STRUCTURE.
WE BELIEVE THAT KLEINMAN COULD PLAY CATALYTIC ROLE IN
LIGHT OF ALL EFFORTS THAT HAVE GONE BEFORE AND THAT HIS
TIMING MIGHT BE PROPITIOUS IN GETTING THIS DEVELOPMENT
STARTED.

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